

COMMITTEE ON WAYS AND MEANS

Representative Steve Huffman, Chairman
Representative Steve Yarbrough, Vice-Chairman
Kitty Decker, Legislative Research Analyst



* Strike-everything Amendment
[E] Emergency Clause
[P 108] Proposition 108 Clause

Bill	Chapter	Short Title	Page
HB 2054	102	tax check-off; veterans donation fund <i>(See Committee on CMMA)</i>	58
HB 2086	123	taxes; payments, filings and extensions	157
HB 2088	18	taxation; confidentiality	157
HB 2089	105	transaction privilege tax; postage deduction.....	158
HB 2132	171	municipal tax exemption; fairs	158
HB 2175	327	property tax exemption; health care	158
HB 2350	134	county treasurer; corrections	158
HB 2360	321	tax exemption; food; school districts	158
HB 2377	332	state board of equalization; members	159
HB 2429	333	solar energy tax incentives	65
		<i>(See Committee on Environment)</i>	
HB 2474	322	verification of class three property	159
HB 2669	140	irrigation water delivery districts	159
HB 2702	376	Rio Nuevo; shared revenue	159
HB 2712	244	tax decisions; distribution	160
HB 2717	323	tax exemption; government owned property	160
HB 2795	342	tax exemption; active duty pay	160
HB 2820	230	manufactured buildings; taxation	160
HB 2821	143	property tax assessment; valuation; appeals	161
HB 2876	354	tax relief; omnibus.....	161
SB 1068	386	contractor sales tax; development fees.....	162
SB 1069	76	2006 tax corrections act	162
SB 1074	387	enterprise zone; reauthorization.....	162
SB 1137	307	*AHCCCS; PACE program	93
		<i>(See Committee on Health)</i>	
SB 1155	82	Income tax credit review schedule	163
SB 1156	357	internal revenue code conformity	163
SB 1170	262	estate; generation skipping taxes; repeal.....	163
SB 1390	38	property tax valuation; telecommunications companies	163
SB 1404	325	*corporate tuition tax credit; amount	163

SB 1411	168	prime contracting; exemption; waste disposal	163
SB 1461	391	department of revenue; continuation.....	163
SB 1481	392	property tax exemption; educational institutions.....	164
SB 1499	14	corporate tax credit; tuition organizations	164

HB 2086 – Chapter 123 – taxes; payments, filings and extensions

Provides several changes regarding the payment of taxes as follows:

- Allows DOR to charge a \$25 fee for insufficient fund payments on electronic payment of taxes.
- Clarifies that TPT payments are delinquent if they are not received by DOR on or before the second to last business day of the month or, if filing by mail, they are not postmarked before the twenty-fifth day of the month.
- Changes the due date of electronic payments of TPT from the twenty-fifth day of the month to the second to last business day of the month.
- Allows DOR to assess penalties if a taxpayer does not file their TPT return on time, even if the actual tax is remitted in a timely manner.
- Allows any taxpayer to remit taxes by an electronic funds transfer.
- Allows the taxpayer to reconcile the withholding amounts within 10 days after the end of each quarter when payments are paid in full and not delinquent for that quarter, similar to the Internal Revenue Code requirements.

HB 2088 – Chapter 18 – taxation; confidentiality

Updates and clarifies the application of confidentiality statutes as follows:

- Allows the disclosure of income tax information in TPT cases heard by OAH if the taxpayer agrees in writing and waives confidentiality.
- Authorizes the disclosure of confidential information to the following:
 - ⇒ The Federation of Tax Administrators and the Multi-State Tax Commission for information exchange programs or tax administration.
 - ⇒ The United States Treasury Department for use in the state income tax levy program and the electronic federal tax payment system.
 - ⇒ Any judicial or administrative proceedings if:
 - The proceedings arose from a taxpayer's civil or criminal tax liability.
 - The return is an issue in a proceeding.
 - The tax return information directly relates to a person who is a party to the proceeding, has a transactional relationship with the taxpayer and it would affect the outcome.
- Clarifies that DOR may disclose information to the Department of Liquor Licensing and Control to verify payment of taxes related to liquor sales.
- Stipulates restrictions on the release of information regarding unclaimed property:
 - ⇒ Clarifies that the information can be released to the holder of the property in addition to a claimant.
 - ⇒ Requires any independent auditors hired by DOR for unclaimed property to be subject to the same confidentiality requirements as DOR employees or other entities that exchange information with DOR.
 - ⇒ Expands the definition of *confidential information* for unclaimed property purposes by including any information that the claimant or holder requests to be kept confidential if there is a possible tax liability involved.

HB 2089 – Chapter 105 – transaction privilege tax; postage deduction

Clarifies that TPT does not apply to postage or freight costs for job printing if these items are separately stated on the invoice.

HB 2132 – Chapter 171 – municipal tax exemption; fairs

Preempts a municipality from charging TPT or a similar tax on the gross proceeds of sales or gross income retained by the Arizona Exposition and State Fair Board from ride ticket sales at the State fair.

HB 2175 – Chapter 327 – property tax exemption; health care

Clarifies the exemption for property used for health care services if the following conditions are met:

- The property is owned by a 501(c)(3) health care provider.
- The property is used to provide health care services, including the administration of services.
- Provides a definition of *health care provider*.
- Establishes a retroactive effective date to January 1, 2000.
- Requires the county treasurer to issue a refund for taxes, penalties and interest paid from 2000 to 2005 to qualifying organizations that submit a claim.

HB 2350 – Chapter 134 – county treasurer; corrections

Provides several changes to county treasurer's procedures as follows:

- Clarifies the legal interest rate the county treasurer must pay on tax corrections to be the same interest rate charged by DOR.
- Requires electronic transmission of property taxes for taxpayers who submit one hundred or more personal property tax payments.
- Allows the county treasurer to abate property taxes on sales of personal property and eliminates DOR approval for the abatement of these taxes.

HB 2360 – Chapter 321 – tax exemption; food; school districts

Expands the current TPT exemption for food purchases at public schools by:

- Establishing a TPT deduction under the restaurant classification for the sale of food to a school district or charter school that is consumed at the school during school hours.
- Clarifies the use tax exemption applies for food acquired by or provided to a school district or charter school and is consumed at the school during school hours.
- Provides a retroactive effective date to January 1, 2000.
- Requires that claims for refunds must be filed with DOR by December 31, 2006 and that the taxpayer is responsible for providing evidence to the amount of overpaid tax.
- Requires DOR to review each timely filed claim and notify the taxpayer of their decision

- The aggregate amount of the refunds will not exceed \$100,000. Interest will not be paid on any refund before July 1, 2007.
- Specifies that the refund provisions are non-severable.

HB 2377 – Chapter 332 – state board of equalization; members

Provides the following changes to the membership of the State Board of Equalization (SBOE):

- Increases the number of members on the SBOE from 17 to 33.
- Decreases the number of years of experience needed in property valuation or real estate for appointment to the SBOE from four years to three years.
- Prohibits a member of the SBOE, other than the chairperson, from having been employed by a county assessor, county attorney, DOR or AG's office within the last two years.
- Requires, if possible and at the chairperson's discretion, no more than one member on a three-member panel and no more than two members on a five-member panel from being employed by a county assessor, county attorney, DOR or AG within the last four years.
- Increases the compensation for members of the SBOE from \$150 to \$300 per day.
- Allows current SBOE members to continue to serve their term and not be subject to the new qualification requirements.
- Appropriates \$30,000 from the state general fund to the SBOE for the purposes of this act.

HB 2474 – Chapter 322 – verification of class three property

Allows the county assessor's office to enter into intergovernmental agreements with DOR for a coordinated and comprehensive review of information regarding identification of properties that may be misclassified as class 3 (owner-occupied residential) instead of class 4 (rented residential). In addition, the bill:

- Requires DOR to monitor and review procedures and practices used by the county for the verification of class 3 properties and propose suggested improvements for uniform processes among the counties.
- Requires DOR to issue a report by November 15 each year to the Governor and Legislature on the processes and procedures used by each county in their verification program.
- Allows DOR to require the reclassification of property.
- Allows DOR to require information from the county assessor and county treasurer to verify compliance of procedures used to identify misclassified properties.

HB 2669 – Chapter 140 – irrigation water delivery districts

Allows an irrigation water delivery district to be dissolved by a majority of property owners in the district, instead of all property owners, when they sign a petition for dissolution.

HB 2702 – Chapter 376 – Rio Nuevo; shared revenue

Extends the tax increment financing for a qualifying county stadium district (Rio Nuevo) from ten years to July 1, 2025. The tax increment financing allows 50% of state TPT revenues generated in the district to remain with the district. In addition, the bill:

- Prohibits the use of state TPT revenues for public buildings, except buildings for police, fire or other public safety facilities, tourism offices and office space used for the administration, maintenance and operation of the multipurpose facility.
- Eliminates the authority for the district to use district funds to acquire land by eminent domain.
- Prohibits altering the district boundaries after it is formed.

HB 2712 – Chapter 244 – tax decisions; distribution

Provides that tax decisions will be available to the public as follows:

- Requires the following agencies to provide tax decisions to the law libraries, state university Colleges of Law, the State Law Library, the Arizona State Library and any person who requests them, and to publish tax decisions on their official website.
 - ⇒ DOR
 - ⇒ OAH
 - ⇒ Each city or town tax hearing office or the municipal tax hearing officer.
 - ⇒ DES
 - ⇒ ADOT
 - ⇒ The State Board of Tax Appeals (SBOTA)
- Requires the Arizona Supreme Court to adopt rules that establish a procedure for all Arizona courts to distribute tax memorandum decisions to the general public and defines *memorandum decision* for this purpose.
- Defines *redacted tax decision* and *tax decision*.
- Agencies that are required to publish tax decisions must establish and maintain an official website by January 1, 2008 if they do not currently have one.

HB 2717 – Chapter 323 – tax exemption; government owned property

Eliminates the tax for improvements made on land owned by and then leased from an agricultural improvement district.

HB 2795 – Chapter 342 – tax exemption; active duty pay

Beginning January 1, 2007, provides a permanent state income tax exemption for military income of active duty members of the Armed Forces of the United States, including active service of the National Guard or reserves.

HB 2820 – Chapter 230 – manufactured buildings; taxation

Clarifies the application of TPT on manufactured (mobile) homes to be the same as real property. Specifically, the bill:

- Clarifies that the proceeds from alterations or repairs to a manufactured home are taxable under the prime contracting classification.
- Clarifies the site of taxation for the sales of manufactured homes in Arizona as follows:
 - ⇒ homes sold and delivered to another state are not taxed.
 - ⇒ homes sold with no specified delivery site are taxed at the dealer's location.
 - ⇒ homes sold with a specified delivery or setup site in Arizona are taxed at that site.

- Stipulates that homes purchased outside of Arizona, but setup in Arizona are subject to use tax at the rate of 65% of the sales price. Any person hired to setup the home in Arizona is liable for collecting and remitting the use tax along with any tax due under the prime contracting classification.
- Specifies that sales for resale do not include sales to a lessor of manufactured buildings.
- Contains an intent clause stating the bill is clarifying existing law and not creating new taxes.

HB 2821 – Chapter 143 – property tax assessment; valuation; appeals

Makes several clarifications and changes regarding property valuation and appeals and establishes an Elderly Assistance Fund. Specifically, the bill:

- Modifies the definition of *full cash value* so that the full cash value will not exceed market value regardless of the valuation method.
- Adds a definition of *due date* to mean the next business day if the due date of any report, claim, return or other document falls on a weekend or legal holiday.
- Adds a definition of *net assessed value* to mean the assessed value minus any exempt property.
- Clarifies several property valuation or classification appeal deadlines so that the number of days to file an appeal starts from the date of the mailing of the decision, instead of the date of the decision.
- Allows appeals from a County Board of Equalization to be made by December 15 or within sixty days after the mailing of the decision, whichever is later.
- Prohibits the county assessor from changing the final tax roll reported on February 10 for levy limit purposes without approval from the Property Tax Oversight Commission.
- Establishes an Elderly Assistance Fund in Maricopa County administered by the county treasurer. Monies in the Fund will come from the interest differential on the redemption of tax liens. The Fund will receive the difference of the interest rate prescribed on the tax lien certificate of purchase and the statutory (16%) interest rate for delinquent taxes. The county treasurer shall:
 - ⇒ Use monies in the Fund to proportionately reduce the primary property taxes of all taxpayers who live in an organized school district and who are approved for the senior property valuation freeze.
 - ⇒ Invest the monies in the Elderly Assistance Fund and deposit any interest earned from such investments to the County Treasurer's Taxpayer's Information Fund.

HB 2876 – Chapter 354 – tax relief; omnibus

Makes several changes to reform and reduce taxes as follows:

Property Tax:

- For tax year 2006, requires municipalities, counties and community college districts to set their primary property levies at the lesser of their constitution levy limit or their 2005 primary property tax levy plus new construction value and a two percent inflation factor.
- Changes the name of the county equalization assistance for education tax rate to the state equalization assistance property tax rate.

- For tax years 2006 through 2008, sets the state equalization assistance for education rate at zero; tax years beginning 2009, the rate will be the adjusted TNT rate from the 2005 tax year.
- Updates the qualifying tax rate set by legislature under the TNT statutes to \$3.4788 for unified districts and \$1.7394 for elementary and high school districts.
- Beginning July 1, 2007, requires secondary taxes for bonds, overrides and other special district taxes to only be conducted at the November general election.
- Modifies the information that is provided in the information pamphlet for bonds, overrides and other secondary taxes as follows:
 - ⇒ Eliminates the requirement to show the tax impact on a \$100,000 home and the average assessed value for residential, commercial and agricultural property.
 - ⇒ Requires the political subdivision show the impact of the estimated debt service for a \$250,000 home and a commercial or industrial property valued at \$2.5 million.
 - ⇒ The tax impact will assume that the assessed value of the home or business will remain constant over the term of the bonds.
 - ⇒ The impact will be shown per year, the total number of years of the bond and the total cost.

Individual Income Tax:

- Beginning in 2006, reduces the individual income tax rate by 10% over a two year period. The following chart indicates the current and new tax rates:

Single/Married Filing Separate Income Bracket	Married Filing Joint/Head of Household Income Bracket	Current Tax Rate	2006 Tax Rate	2007 Tax Rate
\$0 - \$10,000	\$0 - \$20,000	2.87%	2.73%	2.59%
\$10,001 - \$25,000	\$20,001 - \$50,000	3.20%	3.04%	2.88%
\$25,001 - \$50,000	\$50,001 - \$100,000	3.74%	3.55%	3.36%
\$50,001 - \$150,000	\$100,001 - \$300,000	4.72%	4.48%	4.25%
\$150,001 and over	\$300,001 and over	5.04%	4.79%	4.54%

TPT and Other Excise Taxes:

- Beginning November 1, 2006, eliminates the membership camping classification under the TPT, the rental occupancy tax and the severance tax on timber products

SB 1068 – Chapter 386 – contractor sales tax; development fees

Beginning September 1, 2006, exempts state and local development or impact fees associated with prime contracting from municipal or state transaction privilege taxes or similar excise taxes. In addition, the bill provides a legislative intent clause that states that the provisions of the bill are not intended to affect the interpretation of statute or city tax code for taxable periods prior to the effective date of this act.

SB 1069 – Chapter 76 – 2006 tax corrections act

The annual bill that makes technical, conforming, and clarifying changes to the Arizona tax statutes.

SB 1074 – Chapter 387 – enterprise zone; reauthorization

Continues the Enterprise Zone program and associated tax incentives to July 1, 2011. The bill:

- Stipulates that the business certification is terminated when a certified small manufacturing or commercial printing business is purchased by another entity or changes by more than 20 percent of the ownership interest.

- Defines *closely held, commercial printing, family owned, independently owned and operated* and *small commercial printing*. Clarifies the definition of *small manufacturing business* to include small commercial printing.
- Contains blending provisions from previous legislation that lowered the secondary property tax assessment ratio.

SB 1155 – Chapter 82 – income tax credit review schedule

Places the income tax credits reviewed in 2005 back on the Income Tax Credit Review schedule for 2010. These income tax credits include:

- ⇒ Credits for the employment of TANF recipients.
- ⇒ Contributions to charitable organizations that provide assistance to the working poor.

SB 1156 – Chapter 357 – internal revenue code conformity

The annual bill that updates the definition of *internal revenue code*. This includes all provisions that were in effect as of January 1, 2006 including provisions with federal retroactive effective dates.

SB 1170 – Chapter 262 – estate; generation skipping taxes; repeal

Permanently repeals the Arizona Estate Tax and removes all references to this tax for subtractions, filing dates, extensions and references to the federal estate tax.

SB 1390 – Chapter 38 – property tax valuation; telecommunications companies

Provides changes to the valuation of telecommunications property. Requires DOR to consider obsolescence in the valuation of telecommunications property upon documentation by the telecommunications company. Defines *obsolescence*.

SB 1404 – Chapter 325 – *corporate tuition tax credit: amount

Changes the annual aggregate amount of corporate income tax credits allowed for contributions to a student tuition organizations as follows:

- For FY 2006-07, increases the maximum amount of credits from \$5 million to \$10 million.
- Beginning in FY 2007-08, the aggregate amount of the corporate tax credits shall be increased from the previous fiscal year by 20 percent.

SB 1411 – Chapter 168 – prime contracting; exemption; waste disposal

Provides an exemption from TPT under the prime contracting classification for the operation of a landfill or a solid waste disposal facility. The bill also:

- Clarifies that the activities of constructing roads to a landfill or a solid waste disposal facility and constructing cells sites are still taxable as prime contracting.
- Contains a purpose clause stating the bill is clarifying and reaffirming current law and may not be used or considered in the construction or interpretation of the Model City Tax Code.

SB 1461 – Chapter 391 – department of revenue; continuation

Extends the DOR for ten years, to July 1, 2016. The bill also provides for the following:

- Prohibits DOR, unless permitted by law, from applying new legislation retroactively or in a way that will penalize a taxpayer who was complying with previous legislation.

- Restricts new interpretations or applications of the tax laws by the DOR as follows:
 - ⇒ The change may only apply prospectively unless it is favorable to taxpayers.
 - ⇒ The DOR may not collect any tax, penalty, or interest retroactively on any new interpretations.
 - ⇒ Any change is considered an affirmative defense in any administrative or judicial action in the retroactive collection of tax, penalties or interest from taxable years prior to the change being adopted.
- Stipulates that DOR does not have to provide a refund of tax, penalties or interest paid before a new interpretation or application unless the taxpayer provides documentation showing that the refund will go to a person who paid an extra charge to cover the tax. Defines *new interpretation or application*.
- Requires the Joint Legislative Oversight Committee on Property Tax Assessment and Appeals to meet as necessary to review and comment on any proposed DOR property guidelines, tables and manuals

SB 1481 – Chapter 392 – property tax exemption; educational institutions

- Establishes a property tax exemption for property owned by a non-profit religious or charitable organization that leases the property to a non-profit educational organization and is used for educational purposes through grade 12.
- Requires the property owner to file evidence with the county assessor of their tax exempt status and an affidavit from the educational organization stating the property is used for educational instruction.
- Specifies that the property owner must notify the assessor in writing of any change in the ownership or use of the property.
- Clarifies that rental housing for low income elderly residents is exempt from property taxation if certain conditions are met:
 - ⇒ The property is not used or held for profit, is owned and operated by an eligible nonprofit corporation and is used as an assisted living facility for low income elderly residents.
 - ⇒ Any acquisition or rehabilitation of the property is financed with tax exempt bonds and meets federal requirements for this type of financing.
 - ⇒ The facility does not exceed 200 residents.

SB 1499 – Chapter 14 – corporate tax credit; tuition organizations

Establishes a new corporate income tax credit for contributions to a student tuition organization (STO).

Corporate income tax credit

- The new credit begins July 1, 2006 and remains in effect through June 30, 2011.
- The aggregate amount of the credits is \$5 million per year. Allows a five-year carry forward for any unused credit.
- The credit is in-lieu of any tax deduction and the taxpayer may not make the contribution for the direct benefit of any specific student.
- Adds the STO corporate income tax credit to the Income Tax Credit Review schedule in 2011.

- Defines *Qualified School* and *STO*. *Qualified School* is defined for purposes of the corporate STO credit by requiring the qualified school to:
 - ⇒ Be a nongovernmental school that is located in this state and satisfies the requirements prescribed by law for private schools.
 - ⇒ Annually administer a nationally standardized norm-referenced test with preference for those who administer the AIMS test and to make those scores available to the public.
 - ⇒ Fingerprint teaching staff and other staff having unsupervised contact with the students.

DOR Administration

- DOR will preapprove tax credits for companies that plan to make donations for tax credit purposes on a first come, first serve basis. The preapproval will require participation from the STO to determine if the donation has been received in a timely manner.
- Requires DOR to approve/deny the credit within 20 days of being notified of the contribution by the STO.

Student Tuition Organizations

- Requires the STO that receives the contribution to use at least 90% of the contributions for scholarships and tuition grants for students of low-income families. Low income is defined as 185% of the income limit to qualify for reduced lunches.
- The scholarships or grants must be used for a student who either:
 - ⇒ attended a public school as a full-time student for the first 100 days of the prior fiscal year and transferred to a qualified school.
 - ⇒ enrolls in a qualified school in a kindergarten program.
 - ⇒ received a scholarship or tuition grant from the STO and the child continues to attend a qualified school in a subsequent year.
- Requires scholarships and grants to be used for full-time students. If a student leaves the qualified school before completing an entire school year, the school must refund the prorated amount to the STO.
- Requires STO's that receive corporate contributions to allow DOR to verify that the scholarships are awarded to students who attend a qualified school.
- Specifies the maximum scholarship or grant that an STO can award with corporate contributions for 2006 is \$4,200 for grades K-8 and \$5,500 for grades 9-12. Each year thereafter, the maximum grant or scholarship amount will increase by \$100.
- States children receiving scholarships may attend any qualified school of their parent's choice.
- Requires that STO's must report pertinent tracking information regarding contributions to DOR by June 30 each year and allows DOR to adopt rules for this program.
- Requires an independent review of the financial statements of a STO, using general accepted accounting principals.